MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2019/2020

BAC3684 – SECURITY INVESTMENTS AND PORTFOLIO MANAGEMENT

(All Sections/Groups)

11 JUNE 2020
09.00a.m–12.00p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 4 pages with 4 questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

A. Polydamic Group Berhad is the largest environmental services facility in northern Malaysia. Polydamic has grown to be the environmental service provider with the largest fabrication facility and the largest workforce in northern Malaysia. It has a current dividend of RM1.50. The dividend is expected to grow at 6 percent annually. The company's beta is 1.1. The risk-free interest rate is 4 percent and the market risk premium is 6.0 percent. Jacky Tan is interested to buy a stock of Polydamic. He seeks your assistance to:
Show all your working steps.

i. Calculate next year's projected dividend of Polydamic's stock.
(3 marks)

ii. Compute Polydamic's required rate of return for Jacky Tan.
(3 marks)

iii. Calculate the value of Polydamic stock.
(3 marks)

iv. If Polydamic has a share of preferred stock that the par value is RM10 per share, the preferred dividend rate is 8 percent and the required return is 10 percent, compute the price of the preferred stock for Jacky Tan.
(3 marks)

B. Derivative securities are simply agreements to transfer the ownership of the underlying securities under specified conditions.
Discuss **FOUR (4)** reasons why an investor might purchase a call option.
(8 marks)

C. Everything an investor does is tied directly or indirectly to return and risk.
Explain the **TWO (2)** components of the Cumulative Wealth Index for common stocks and how the other can be calculated if assuming we know one of these two components.
(5 marks)

(Total: 25 marks)

Continued …

QUESTION 2

A. Amanda has the following data regarding to Stock A and Stock B in Bursa Malaysia:
Show all your working steps.

Information	Stock A	Stock B
Expected return	12.40%	7.50%
Standard deviation	5.10%	16.23%
Weight	50.00%	50.00%
Covariance and Correlation	-81.00 and -0.98	

She seeks the assistance from you to compute the expected return and standard deviation of returns of a portfolio.

(6 marks)

B. We know that the success of alternative investment strategies depends largely on market efficiency.
Discuss the **THREE (3)** forms of market efficiency in financial markets.

(12 marks)

C. The stock market is a significant and vital part of the overall economy.
Explain the historical relationship between stock prices, corporate profits and interest rates.

(7 marks)

(Total: 25 marks)

QUESTION 3

A. According to the investment plan, Tiffany decided to invest some money in corporate bonds. After receiving advice from her financial planner, Isabel, she bought few units of velesto bonds from Bumi Armada Berhad. The bond has a par value of RM100 per unit and a coupon interest of 7 percent. The bond can be redeemed in 10 years at the par value. Tiffany's required rate of return from the bond investment is 6 percent. Compute the bond price if:
Show all your working steps.

i. The coupon interest is payable on an annual basis.

(3 marks)

ii. The coupon interest is payable on a semi-annual basis.

(3 marks)

Continued …

iii. The coupon interest is increased by 1 percent and paid semiannually.

(3 marks)

iv. Based on part (iii), if Hanna offers to buy Tiffany's bonds at RM100 for each unit, what will be Isabel advice to Tiffany?

(3 marks)

v. The maturity period is going up by 5 years and the interest is paid annually.

(3 marks)

B. The second step in the fundamental analysis of common stocks is sector analysis. Discuss the **FIVE (5)** stages of the industry life cycle and how the patterns of cash dividend payments change over the cycle.

(10 marks)

(Total: 25 marks)

QUESTION 4

A. Minetech Resources Berhad anticipates the need to purchase 80,000 bushels of soybeans in six months to use in their products. The current cash price for soybeans is RM5.50 a bushel. A six-month futures contract for soybeans can be purchased at RM5.53.
Show all your working steps.

i. Explain why Minetech Resources Berhad might need to purchase futures contracts to hedge their position.

(3 marks)

ii. To completely hedge their exposure, how many contracts will they need to purchase? Soybeans trade in 5,000-bushel contracts.

(2 marks)

iii. If the cash price of soybeans ends up at RM5.75 per bushel after six months, by how much will the actual cost of 80,000 bushels of soybeans have gone up?

(3 marks)

iv. After the futures contracts are closed out (sold at RM5.75), what will be the gain on the futures contracts?

(3 marks)

v. Considering the answers to parts (iii) and (iv), what is their net position?

(3 marks)

Continued …

B. Although the technical approach to common stock selection is the oldest approach, it remains controversial.
Explain **TWO (2)** types of charting can be used by investors for detecting trading signals in Bursa Malaysia.

(6 marks)

C. Intrinsic value can be estimated using either a dividend valuation model or a multiplier model.
Discuss **TWO (2)** limitations of using the dividend discount model to determine intrinsic value of a stock.

(5 marks)

(Total: 25 marks)

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